RMG Copper JSC

Consolidated and Separate Financial Statements for the year ended 31 December 2018

Contents

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Independent Auditors' Report

To the Supervisory Board of RMG Copper JSC

Opinion

We have audited the consolidated and separate financial statements of RMG Copper JSC (the "Company") and its subsidiaries (The "Group"), which comprise the consolidated and the separate statements of financial position as at 31 December 2018, the consolidated and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the possible effects on the corresponding figures as at and for the year ended 31 December 2017 of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and unconsolidated financial position of the Group and the Company as at 31 December 2018, and its consolidated and unconsolidated financial performance and its consolidated and unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

We did not observe the counting of inventories with a carrying amount of GEL 13,902 thousand and GEL 13,844 thousand as at 1 January 2017 in the consolidated and the separate statements of financial position, respectively, because we were appointed as auditors of the Group and the Company only after that date. We were unable to satisfy ourselves as to those inventory quantities by alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the elements making up the consolidated and the separate statements of profit or loss and other comprehensive income, the consolidated and the separate statements of changes in equity and the consolidated and the separate statements of cash flows for the year ended 31 December 2017. Our opinions on the consolidated and the separate financial statements as at and for the year ended 31 December 2017 dated 7 March 2019 and 4 April 2019, respectively, were modified accordingly. Our opinion on the current year's consolidated and separate financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated and the Separate Financial Statements* section of our report. We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the consolidated and the separate financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Statement of Management Report

Management is responsible for the Management Report. Our opinion on the consolidated and separate financial statements does not cover the Management Report.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work performed, we conclude that the Management Report:

- is consistent with the consolidated and separate financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Consolidated and the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG Georgia LLC
30 December 2020

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
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Karen Safaryan

KPMG Georgia LLC
30 December 2020

		Group			Company		
’000 GEL	**Note**	**31-Dec-2018**	**31-Dec-2017* (restated)**	**1-Jan-2017* (restated)**	**31-Dec-2018**	**31-Dec-2017* (restated)**	**1-Jan-2017* (restated)**
Assets							
Property, plant and equipment (includes reclamation provision-asset)	12	93,823	79,666	62,621	93,803	79,646	62,601
Intangible assets	14	24,408	19,165	20,352	24,404	19,160	20,346
Prepayments for non-current assets		580	911	2,933	536	869	2,891
Equity investments	15	4,001	4,001	4,001	4,001	4,001	4,001
Dividends receivable	15	39,788	34,467	32,729	39,788	34,467	32,729
Loans receivable	17	10,508	28,330	4,740	10,508	28,330	4,740
Investment	26	-	-	-	48	48	48
Total non-current assets		**173,108**	**166,540**	**127,376**	**173,088**	**166,521**	**127,356**
Inventories	16	19,763	16,342	13,902	19,705	16,284	13,844
Tax asset	24	1,299	4,254	685	1,796	4,751	684
Trade and other receivables	18	20,647	19,419	12,160	20,498	19,270	12,013
Loans receivable	17	-	413	296	-	413	296
Cash and cash equivalents	19	489	2,504	105	477	2,492	93
Total current assets		**42,198**	**42,932**	**27,148**	**42,476**	**43,210**	**26,930**
Total assets		**215,306**	**209,472**	**154,524**	**215,564**	**209,731**	**154,286**
Equity	20						
Share capital		36,189	36,189	36,189	36,189	36,189	36,189
Retained earnings/(accumulated losses)		66,361	(23,621)	(92,931)	65,380	(24,601)	(93,911)
Reserves		2,402	2,402	2,402	2,402	2,402	2,402
Total equity		**104,952**	**14,970**	**(54,340)**	**103,971**	**13,990**	**(55,320)**
Liabilities							
Loans and borrowings	22	11,840	3,657	3,213	11,840	3,657	3,213
Site restoration provision	13	22,224	19,200	13,903	22,224	19,200	13,903
Total non-current liabilities		**34,064**	**22,857**	**17,116**	**34,064**	**22,857**	**17,116**
Loans and borrowings	22	27,942	89,051	126,869	27,814	88,923	126,741
Trade and other payables	23	48,348	82,594	61,695	49,715	83,961	63,061
Current tax liability		-	-	2,377	-	-	2,432
Other tax liabilities		-	-	808	-	-	256
Total current liabilities		**76,290**	**171,645**	**191,749**	**77,529**	**172,884**	**192,490**
Total liabilities		**110,354**	**194,502**	**208,865**	**111,593**	**195,741**	**209,606**
Total equity and liabilities		**215,306**	**209,472**	**154,524**	**215,564**	**209,731**	**154,286**

* The Group and the Company have initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The comparative information is restated to reflect correction of prior year errors. See Note 30.

The consolidated and separate statements of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated and separate financial statements set out on pages 10 to 57.

		Group		Company	
'000 GEL	**Note**	**2018**	**2017* (restated)**	**2018**	**2017* (restated)**
Revenue	6	275,793	226,096	275,793	226,096
Cost of sales	7	(155,424)	(115,785)	(155,424)	(115,785)
Gross profit		**120,369**	**110,311**	**120,369**	**110,311**
Other income		1,538	858	1,538	858
Selling and distribution expenses	8	(3,520)	(3,623)	(3,520)	(3,623)
Administrative expenses	9	(25,175)	(23,010)	(25,175)	(23,010)
Other expenses	10	(5,920)	(13,045)	(5,920)	(13,045)
Impairment loss on dividends receivable		(66)	(1,500)	(66)	(1,500)
Results from operating activities		**87,226**	**69,991**	**87,226**	**69,991**
Finance income	11	10,190	9,626	10,190	9,484
Finance costs	11	(6,384)	(10,307)	(6,384)	(10,165)
Net finance income/(costs)		**3,806**	**(681)**	**3,806**	**(681)**
Profit for the year and total comprehensive income		**91,032**	**69,310**	**91,032**	**69,310**

* The Group and the Company have initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The comparative information is restated to reflect correction of prior year errors. See Note 30.

These consolidated and separate financial statements were approved by management on 30 December 2020 and were signed on its behalf by:

Tornike Lipartia
General Director

Lasha Mepharishvili
Chief Financial Officer

JSC RMG Copper, GEORGIA
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The consolidated and separate statements of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated and separate financial statements set out on pages 10 to 57.

		Group		Company	
’000 GEL	**Note**	**2018**	**2017* (restated)**	**2018**	**2017* (restated)**
Revenue	6	275,793	226,096	275,793	226,096
Cost of sales	7	(155,424)	(115,785)	(155,424)	(115,785)
Gross profit		**120,369**	**110,311**	**120,369**	**110,311**
Other income		1,538	858	1,538	858
Selling and distribution expenses	8	(3,520)	(3,623)	(3,520)	(3,623)
Administrative expenses	9	(25,175)	(23,010)	(25,175)	(23,010)
Other expenses	10	(5,920)	(13,045)	(5,920)	(13,045)
Impairment loss on dividends receivable		(66)	(1,500)	(66)	(1,500)
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Net finance income/(costs)		**3,806**	**(681)**	**3,806**	**(681)**
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* The Group and the Company have initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The comparative information is restated to reflect correction of prior year errors. See Note 30.

These consolidated and separate financial statements were approved by management on 30 December 2020 and were signed on its behalf by:

Tornike Lipartia
General Director

Lasha Mepharishvili
Chief Financial Officer

The consolidated and separate statements of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated and separate financial statements set out on pages 10 to 58.

	Group			
’000 GEL	**Share capital**	**Revaluation of equity investment**	**Retained earnings/ (accumulated losses)**	**Total**
Balance at 31 December 2016, as reviously reported	36,189	2,402	(55,328)	(16,737)
Impact of correction of errors	-	-	(37,603)	(37,603)
Balance at 1 January 2017, restated	36,189	2,402	(92,931)	(54,340)
Profit for the year and total comprehensive income, restated	-	-	69,310	69,310
Balance at 31 December 2017, restated	**36,189**	**2,402**	**(23,621)**	**14,970**
Adjustment on initial application of IFRS 9*	-	-	(1,051)	(1,051)
Balance at 1 January 2018, restated	36,189	2,402	(24,672)	13,919
Profit for the year and total comprehensive income	-	-	91,032	91,032
Balance at 31 December 2018	**36,189**	**2,402**	**66,360**	**104,951**

	Company			
’000 GEL	**Share capital**	**Revaluation of equity investment**	**Retained earnings/ (accumulated losses)**	**Total**
Balance at 31 December 2016, as reviously reported	36,189	2,402	(56,308)	(17,717)
Impact of correction of errors	-	-	(37,603)	(37,603)
Balance at 1 January 2017, restated	36,189	2,402	(93,911)	(55,320)
Profit for the year and total comprehensive income, restated	-	-	69,310	69,310
Balance at 31 December 2017, restated	**36,189**	**2,402**	**(24,601)**	**13,990**
Adjustment on initial application of IFRS 9*	-	-	(1,051)	(1,051)
Balance at 1 January 2018, restated	36,189	2,402	(25,652)	12,939
Profit for the year and total comprehensive income	-	-	91,032	91,032
Balance at 31 December 2018	**36,189**	**2,402**	**65,380**	**103,971**

* The Group and the Company have initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The comparative information is restated to reflect correction of prior year errors. See Note 30.

The consolidated and separate statements of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated and separate financial statements set out on pages 10 to 57.

		Group		Company	
’000 GEL	**Note**	**2018**	**2017* (restated)**	**2018**	**2017* (restated)**
Cash flows from operating activities					
Profit for the year		91,032	69,310	91,032	69,310
Adjustments for:					
Depreciation and amortization	7,8,9	19,054	9,685	19,054	9,685
Impairment losses on dividends receivable		66	1,500	66	1,500
Impairment loss on loans receivable in other expense	10	-	343	-	343
Net loss on disposal of property, plant and equipment	10	1,893	163	1,893	163
Inventory write off and increase in provision	10	514	7,508	514	7,508
Net finance costs	11	(3,806)	681	(3,806)	681
Cash from operating activities before changes in working capital		**108,753**	**89,190**	**108,753**	**89,190**
Change in inventories		(4,792)	(5,173)	(4,792)	(5,173)
Change in trade and other receivables	18	(47,996)	(59,465)	(47,996)	(59,465)
Change in tax asset		2,955	(3,569)	2,955	(4,067)
Change in other tax liabilities		-	(808)	-	(256)
Change in trade and other payables	23	(38,758)	21,767	(38,758)	21,767
Cash flows from operations before income taxes paid		**20,162**	**41,942**	**20,162**	**41,996**
Income tax paid		-	(2,377)	-	(2,431)
Net cash from operating activities		**20,162**	**39,565**	**20,162**	**39,565**
Cash flows from investing activities					
Loans issued		(30,066)	(34,561)	(30,066)	(34,561)
Repayment of loans issued		53,269	12,753	53,269	12,753
Acquisition of property, plant and equipment		(30,102)	(24,087)	(30,102)	(24,087)
Proceeds from sale of property plant and equipment		793	1,749	793	1,749
Acquisition of intangible assets		(7,283)	(1,169)	(7,283)	(1,169)
Net cash used in investing activities		**(13,389)**	**(45,315)**	**(13,389)**	**(45,315)**
Cash flows from financing activities					
Proceeds from borrowings		39,905	43,187	39,905	43,187
Repayment of borrowings		(48,903)	(35,156)	(48,903)	(35,156)
Net cash (used in)/from financing activities		**(8,998)**	**8,031**	**(8,998)**	**8,031**
Net (decrease)/increase in cash and cash equivalents		**(2,225)**	**2,281**	**(2,225)**	**2,281**
Cash and cash equivalents at 1 January		2,504	105	2,492	93
Effect of exchange rate fluctuations on cash and cash equivalents		210	118	210	118
Cash and cash equivalents at 31 December	19	**489**	**2,504**	**477**	**2,492**

* The Group and the Company have initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The comparative information is restated to reflect correction of prior year errors. See Note 30.

The consolidated and separate statements of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated and separate financial statements set out on pages 10 to 57.

1. Reporting entity

(a) Business environment

The Group's/Company's operations are primarily located in Georgia. Consequently, the Group/Company is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. COVID-19 coronavirus pandemic has further increased uncertainty in the business environment.

The consolidated and separate financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group/Company. The future business environment may differ from management's assessment.

(b) Organisation and operations

RMG Copper JSC (formerly Madneuli JSC) (the "Company") and its subsidiaries, Trans Fetk Mzidi LTD and Belaz Kavkaz Trans Service LTD, where the Company owns 50% in each subsidiary (the "Group") comprise Georgian Joint Stock and Limited Liability Companies as defined in the Law of Georgia on Entrepreneurs.

The Company was incorporated under the Laws of Georgia on 31 January 1996. In June 2012 Rich Metals Group B.V. (the "Parent") acquired 99.16 % of the Company's shares from GPM Georgia B.V. Following the ownership change in 2012 the Company was renamed as RMG Copper JSC. As at 31 December 2018 Rich Metals Group B.V. own 99.6% in the Company (2017: 99.6%).

The Company's registered office is Kazreti Settlement, Bolnisi region, Georgia. Registration Authority is Bolnisi District Court. Company's identification number is 225358341.

The Company is licensed for exploration, mining and processing of mineral resources at the Madneuli deposit within the territory of the Bolnisi region in southern Georgia until 2041. The existing license was obtained in November 2014.

The Group's/Company's main operations include mining and processing of copper-gold bearing ore. Final products comprise copper-gold concentrate and cement copper concentrate.

As at 31 December 2018 and 2017 the Company's 99.6% owner is Rich Metals Group B.V. (Netherlands) and the ultimate controlling companies of the Group are Suncort Enterprises Limited and Ticola Holdings Limited registered in the British Virgin Islands.

As at 31 December 2018 the Group is ultimately controlled by Dmitry Troitsky, (2017: Dmitry Troitsky and Dmitry Korzhev) who have the power to direct the transactions of the Group/Company at his own discretion and for his own benefit. Dmitry Troitsky also has a number of business interests outside the Group. Related party transactions are disclosed in note 29.

2. Basis of accounting

(a) Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

This is the first set of the Group's/Company's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 5.

(b) Mining license and ore reserves

The Group/Company holds the license issued by the Ministry of Environmental Protection and Natural Resources of Georgia with respect to exploration, extraction and mining of precious, non-ferrous, rare metals and barites in the Bolnisi administrative area of Georgia (the "Madneuli deposit"). The license was obtained in November 2014 and is valid until 2041.

The Madneuli deposit's latest ore reserve estimates were prepared 2018 mining plan was prepared by internal experts- geologists of the Company, which showed 1.69 million tonnes measured and 13.7 million tonnes indicated to derive the ore reserves.

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Group/Company. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, the availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Group's/Company's ore reserve estimates.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these consolidated and separate financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of consolidated and separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying significant policies that have the most significant effect on the amounts recognized in the consolidated and separate financial statements is included in Note 13 - Site restoration provision.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 12 – Stripping cost capitalization;
- Note 13 – Assessment of timing and amount of site restoration provision;
- Note 15 - Assessment of timing of receipts of dividends from RMG Gold LLC;
- Note 15 – Equity investment - fair values of financial instruments classified as level 3 in the fair value hierarchy.

Measurement of fair values

A number of the Group's/Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The estimated fair values of all financial instruments as at 31 December 2018 and 31 December 2017 approximate their carrying amounts.

Further information about the assumptions made in measuring fair values is included in the Note 25– fair values and risk management.

5. Changes in significant accounting policies

The Group and Company has initially applied IFRS 15 (see (a)) and IFRS 9 (see (b)) from 1 January 2018. These standards alongside with a number of other new standards which are also effective from 1 January 2018 do not have a material effect on the Group's/Company's consolidated and separate financial statements.

Due to the transition methods chosen by the Group/Company in applying these standards, comparative information throughout these consolidated and separate financial statements has not been restated to reflect the requirements of the new standards. The effect of initially applying these standards is mainly attributed to an increase in impairment losses Recognized on loans receivable and dividends receivable (see b (ii)).

(a) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group/Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

IFRS 15 did not have a significant impact on the Group's/Company's accounting policies with respect to revenue streams (see note 6), therefore, there has been no impact of transition to IFRS 15 on the consolidated and separate statements of financial position as at 1 January 2018 and 31 December 2018 and the consolidated and separate statements of profit or loss and other comprehensive income for the year ended 31 December 2018.

For additional information about the Group's/Company's accounting policies relating to revenue recognition, see note 32(b).

(b) IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

The following table summarizes the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings.

'000 GEL **Retained earnings**	**Impact of adopting IFRS 9 on opening balance**
Recognition of expected credit losses on loans receivable under IFRS 9	657
Recognition of expected credit losses dividends receivable under IFRS 9	394
Impact at 1 January 2018	**1,051**

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and equity investment. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's/Company's accounting policies related to financial liabilities.

For an explanation of how the Group/Company classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see note 32i(iii).

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's/Company's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

Group **'000 GEL**	**Notes**	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets					
Dividends receivable	15	Loans and receivables	Amortised cost	34,467	34,074
Loans receivable	17	Loans and receivables	Amortised cost	28,743	28,086
Receivables from sales of copper concentrate and cement copper *	18	Loans and receivables	FVTPL	11,493	11,493
Other receivables	18	Loans and receivables	Amortised cost	4,302	4,302
Equity investment **	15	Available-for-sale	FVOCI – equity instrument	4,001	4,001
Cash and cash equivalents	19	Loans and receivables	Amortised cost	2,504	2,504
Recognized financial assets				**85,510**	**84,460**
Financial liabilities					
Loans and borrowings	22	Other financial liabilities	Other financial liabilities	92,708	92,708
Trade and other payables	23	Other financial liabilities	Other financial liabilities	79,481	79,481
Total financial liabilities				**172,189**	**172,189**

Company **'000 GEL**	**Notes**	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets					
Dividends receivable	15	Loans and receivables	Amortised cost	34,467	34,074
Loans receivable	17	Loans and receivables	Amortised cost	28,743	28,086
Receivables from sales of copper concentrate and cement copper *	18	Loans and receivables	FVTPL	11,506	11,506
Other receivables	18	Loans and receivables	Amortised cost	7,604	7,604
Equity investments **	15	Available-for-sale	FVOCI – equity instrument	4,001	4,001
Cash and cash equivalents	19	Loans and receivables	Amortised cost	2,492	2,492
Recognized financial assets				**88,813**	**87,763**
Financial liabilities					
Loans and borrowings	22	Other financial liabilities	Other financial liabilities	92,580	92,580
Trade and other payables	23	Other financial liabilities	Other financial liabilities	81,009	81,009
Total financial liabilities				**173,589**	**173,589**

* The Group/Company classified receivables from sales of copper concentrate and cement copper into the category 'Loans and receivables' under IAS 39 with the effect of provisionally priced sales being considered immaterial. On adoption of IFRS 9, since 1 January 2018, these financial assets were classified into the category 'Fair value through profit or loss' due to the embedded provisionally pricing feature.

** At 1 January 2018, the Group/Company designated its equity investments into the category 'Fair value through other comprehensive income' (FVOCI) because these equity securities represent investments that the Group/Company intends to hold for the long term for strategic purposes. The equity investments measured at FVOCI represents an investment in 3.79% of the share capital of RMG Gold LLC (formerly Quartzite LLC), a fellow subsidiary.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see note 32 (j)

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group/Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

'000 GEL	
Loss allowance at 31 December 2017 under IAS 39	**3,349**
Additional impairment recognised at 1 January 2018 on:	
Loans receivable:	657
Dividends receivable:	393
Loss allowance at 1 January 2018 under IFRS 9	**4,399**

Additional information about how the Group/Company measures the allowance for impairment is described in notes 32(j).

(iii) Transition

The Group/Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in accumulated losses as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

6. Revenue

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in Note 5. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

The Group/Company generates revenue primarily from the sale of copper-gold and cement copper concentrates and revenue from services related to mining activity.

(a) Disaggregation of revenue from contracts with customers

	Group		**Company**	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Sales of copper-gold concentrate	243,465	201,058	243,465	201,058
Revenue from services provided	24,833	15,341	24,833	15,341
Sales of cement copper	7,495	9,697	7,495	9,697
Total revenue from contract with customers	**275,793**	**226,096**	**275,793**	**226,096**

Change in fair value of provisionally priced arrangements, that are embedded to *receivables from sales of copper concentrate and cement copper* is immaterial, hence not shown separately in the statement of profit or loss and other compressive income.

In the following table, revenue from contracts with customers is disaggregated by the primary geographical markets.

	Group		**Company**	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Foreign*	250,960	210,755	250,960	210,755
Domestic**	24,833	15,341	24,833	15,341
Total revenue	**275,793**	**226,096**	**275,793**	**226,096**

* Foreign sale represents sale to a single counterparty Trafigura PTE LTD.
** Domestic revenue represents revenue from services provided to RMG Gold LLC.

(b) Contract balances

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group/Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Group/Company does not have any contract assets or liabilities as performance and a right to consideration occurs within a short period of time without prepayments and all rights to consideration are unconditional.

Information on the receivables from contracts with customers is given in the notes 18 and 25(c).

No information is provided about remaining performance obligations at 31 December 2018 that have an original expected duration of one year or less, as allowed by IFRS 15.

(c) Performance obligations and revenue recognition policies

The Group/Company recognises revenue from contracts with customers at a point in time when it transfers control on a good to a customer and revenue from services is recognized over time as the services are provided, see note 32(b).

7. Cost of sales

	Group		**Company**	
'000 GEL	**2018**	**2017 (restated)**	**2018**	**2017 (restated)**
Materials and fuel	98,201	53,997	98,201	53,997
Labor and wages	17,026	19,419	17,026	19,419
Depreciation and amortization	15,921	14,928	15,921	14,928
Electricity	9,676	10,228	9,676	10,228
Outsourced services	9,023	13,122	9,023	13,122
Natural resource tax	5,577	4,091	5,577	4,091
	155,424	**115,785**	**155,424**	**115,785**

8. Selling and distribution expenses

	Group		**Company**	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Transportation and storage	2,122	2,524	2,122	2,524
Materials	617	671	617	671
Wages and salaries	292	240	292	240
Depreciation	64	20	64	20
Other	425	168	425	168
	3,520	**3,623**	**3,520**	**3,623**

9. Administrative expenses

	Group		Company	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Wages and salaries	13,991	13,832	13,991	13,832
Taxes other than income tax	2,205	2,163	2,205	2,163
Bank charges and consulting fees	1,713	2,633	1,713	2,633
Rent, utilities, communication and office supply	1,271	1,082	1,271	1,082
Depreciation and amortization	1,233	985	1,233	985
Security	529	519	529	519
Repair and maintenance	209	216	209	216
Business trips and representation	192	172	192	172
Other*	3,832	1,408	3,832	1,408
	25,175	**23,010**	**25,175**	**23,010**

*Category other, consists from various operating expenses of administrative nature. Largest expenditures incurred during 2018 were as follows: GEL 1,371 thousand for the clean-up costs related to gas pipeline in Dmanisi region, Georgia and GEL 504 thousand for the operating clean-up costs on the territory of the mine.

Professional fees paid for the financial audit of 2018 amounted GEL 172 thousand (2017: 162 thousand).

10. Other expenses

	Group		Company	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Write off of property, plant and equipment	1,893	163	1,893	185
Research expense	1,391	1,971	1,391	1,971
Inventory write off and increase in provision	514	7,508	514	7,508
Sponsorship and social expenditure	354	185	354	163
Tax related fines and penalties	8	392	8	392
Impairment loss on loans given	-	343	-	343
Other	1,760	2,483	1,760	2,483
	5,920	**13,045**	**5,920**	**13,045**

11. Net finance costs

	Group		Company	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Interest income under the effective interest method on:				
- Loans receivable	3,946	1,657	3,946	1,657
- From unwinding of discount on dividends receivable	4,424	3,785	4,424	3,785
Total income under the effective interest method on	**8,370**	**5,442**	**8,370**	**5,442**
Net foreign exchange gain	1,820	4,184	1,820	4,042
Finance income	**10,190**	**9,626**	**10,190**	**9,484**
Financial liabilities measured at amortised cost – interest expense				
Interest expense on loans and borrowings	(5,927)	(9,961)	(5,927)	(9,819)
Unwinding of discount on site restoration provision	(457)	(346)	(457)	(346)
Finance costs	**(6,384)**	**(10,307)**	**(6,384)**	**(10,165)**

12. Property, plant and equipment (includes reclamation provision asset)

’000 GEL

Group:	**Plant and equipment**	**Motor vehicles**	**Dams and roads**	**Land and buildings**	**Mine property**	**Capitalized reclamation provision asset***	**Other**	**Total**
Cost or deemed cost								
Balance as at 31 December 2016, as previously reported	37,612	27,114	16,850	4,831	113,704	-	2,022	202,133
Impact of correction of errors (note 30)	-	-	-	-	(66,783)	-	-	(66,783)
Impact of reclassification	-	-	-	-	(13,197)	13,197	-	-
Balance at 1 January 2017, restated	**37,612**	**27,114**	**16,850**	**4,831**	**33,724**	**13,197**	**2,022**	**135,350**
Additions	9,638	2,492	640	210	12,824	-	305	26,109
Disposals/write-offs	(1,914)	(341)	-	-	-	-	(160)	(2,415)
Change in measurement of decommissioning liability	-	-	-	-	-	4,951	-	4,951
Balance at 31 December 2017	**45,336**	**29,265**	**17,490**	**5,041**	**46,548**	**18,148**	**2,167**	**163,995**
Balance at 1 January 2018	45,336	29,265	17,490	5,041	46,548	18,148	2,167	163,995
Additions	19,357	267	3,954	146	5,644	-	1,066	30,434
Disposals/write-offs	(2,715)	(93)	(366)	(28)	-	-	(66)	(3,268)
Change in measurement of decommissioning liability	-	-	-	-	-	2,567	-	2,567
Balance at 31 December 2018	**61,978**	**29,439**	**21,078**	**5,159**	**52,192**	**20,715**	**3,167**	**193,728**
Depreciation and impairment losses								
Balance as at 31 December 2016, as previously reported	28,101	16,784	12,728	1,499	41,277	-	1,520	101,909
Impact of correction of errors (note 30)	-	-	-	-	(29,180)	-	-	(29,180)
Impact of reclassification	-	-	-	-	(2,450)	2,450	-	-
Balance at 1 January 2017, restated	**28,101**	**16,784**	**12,728**	**1,499**	**9,647**	**2,450**	**1,520**	**72,729**
Depreciation for the year	2,961	3,045	947	251	3,493	1,074	333	12,104
Disposals/write-offs	(154)	(241)	-	-	-	-	(109)	(504)
Balance at 31 December 2017	**30,908**	**19,588**	**13,675**	**1,750**	**13,140**	**3,524**	**1,744**	**84,329**
Balance at 1 January 2018	30,908	19,588	13,675	1,750	13,140	3,524	1,744	84,329
Depreciation for the year	4,429	2,950	1,443	263	5,289	1,330	455	16,159
Disposals/write-offs	(176)	(90)	(281)	(9)	-	-	(29)	(585)
Balance at 31 December 2018	**35,161**	**22,448**	**14,837**	**2,004**	**18,429**	**4,854**	**2,170**	**99,903**
Carrying amounts								
At 1 January 2017	**9,511**	**10,330**	**4,122**	**3,332**	**24,077**	**10,747**	**502**	**62,621**
At 31 December 2017	**14,428**	**9,677**	**3,815**	**3,291**	**33,408**	**14,624**	**423**	**79,666**
At 31 December 2018	**26,817**	**6,991**	**6,241**	**3,155**	**33,763**	**15,861**	**995**	**93,823**

’000 GEL

Company:	**Plant and equipment**	**Motor vehicles**	**Dams and roads**	**Land and buildings**	**Mine property**	**Capitalized reclamation provision asset**	**Other**	**Total**
Cost or deemed cost								
Balance as at 31 December 2016, as previously reported	37,592	27,114	16,850	4,831	113,704	-	2,022	202,113
Impact of correction of errors (note 30)	-	-	-	-	(66,783)	-	-	(66,783)
Impact of reclassification	-	-	-	-	(13,197)	13,197	-	-
Balance at 1 January 2017, restated	**37,592**	**27,114**	**16,850**	**4,831**	**33,724**	**13,197**	**2,022**	**135,330**
Additions	9,638	2,492	640	210	12,824	-	305	26,109
Disposals/write-offs	(1,914)	(341)	-	-	-	-	(160)	(2,415)
Change in measurement of decommissioning liability	-	-	-	-	-	4,951	-	4,951
Balance at 31 December 2017	**45,316**	**29,265**	**17,490**	**5,041**	**46,548**	**18,148**	**2,167**	**159,024**
Balance at 1 January 2018	45,316	29,265	17,490	5,041	46,548	18,148	2,167	159,024
Additions	19,357	267	3,954	146	5,644	-	1,066	30,434
Disposals/write-offs	(2,715)	(93)	(366)	(28)	-	-	(68)	(3,270)
Change in measurement of decommissioning liability	-	-	-	-	-	2,567	-	2,567
Balance at 31 December 2018	**61,958**	**29,439**	**21,078**	**5,159**	**52,192**	**20,715**	**3,165**	**193,706**
Depreciation and impairment losses								
Balance as at 31 December 2016, as previously reported	28,101	16,784	12,728	1,499	41,277	-	1,520	101,909
Impact of correction of errors (note 30)	-	-	-	-	(29,180)	-	-	(29,180)
Impact of reclassification	-	-	-	-	(2,450)	2,450	-	-
Balance at 1 January 2017, restated	**28,101**	**16,784**	**12,728**	**1,499**	**9,647**	**2,450**	**1,520**	**72,729**
Depreciation for the year	2,961	3,045	947	251	3,493	1,074	333	12,104
Disposals/write-offs	(154)	(241)	-	-	-	-	(109)	(504)
Balance at 31 December 2017	**30,908**	**19,588**	**13,675**	**1,750**	**13,140**	**3,524**	**1,744**	**84,329**
Balance at 1 January 2018	30,908	19,588	13,675	1,750	13,140	3,524	1,744	84,329
Depreciation for the year	4,429	2,950	1,443	263	5,289	1,330	455	16,159
Disposals/write-offs	(176)	(90)	(281)	(9)	-	-	(29)	(585)
Balance at 31 December 2018	**35,161**	**22,448**	**14,837**	**2,004**	**18,429**	**4,854**	**2,170**	**99,903**
Carrying amounts								
At 1 January 2017	**9,491**	**10,330**	**4,122**	**3,332**	**24,077**	**10,747**	**502**	**62,601**
At 31 December 2017	**14,408**	**9,677**	**3,815**	**3,291**	**33,408**	**14,624**	**423**	**79,646**
At 31 December 2018	**26,797**	**6,991**	**6,241**	**3,155**	**33,763**	**15,861**	**995**	**93,803**

Capitalized reclamation provision (asset) is part of the mine property.

Group/Company:

Depreciation expense of GEL 14,625 thousand has been charged to cost of sales (2017: GEL 13,147 thousand), GEL 64 thousand to selling and distribution expenses (2017: GEL 20 thousand), GEL 489 thousand to administrative expenses (2017: GEL 410 thousand) and GEL 3,367 thousand has been included in the carrying amount of inventories as at 31 December 2018 (2017: GEL 4,284 thousand).

Mine property represents stripping activity asset with the carrying amount of GEL 33,764 thousand as at 31 December 2018 (31 December 2017: GEL 33,408 thousand). Significant judgment is required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset. The Group/Company considers that ratio of expected volume in tons of waste to be stripped for an expected volume in tons of ore to be mined for the ore body, is the most suitable production measure.

Security

As at 31 December 2018, items of property, plant and equipment of the Group/Company with a carrying amount of GEL 2,205 thousand (2017: GEL 3,083 thousand) are pledged against a secured loan from Trafigura PTE LTD and items of property, plant and equipment with a carrying amount of GEL 118 thousand (2017: GEL 7,174 thousand) are pledged against secured bank loans (see note 22).

13. Site restoration provision

The movement in the site restoration provision during the year was as follows:

	Group		Company	
’000 GEL	**2018**	**2017**	**2018**	**2017**
Cost				
Balance at 1 January	19,200	13,903	19,200	13,903
Unwinding of discount	457	346	457	346
Change in measurement of decommissioning liability	2,567	4,951	2,567	4,951
Balance at 31 December	**22,224**	**19,200**	**22,224**	**19,200**

After the Group/Company obtained the license for exploration and extraction of precious, non-ferrous, rare metals and barites in the Bolnisi administrative area of Georgia in November 2014 (see note 2(b)) the Group/Company concluded that the obligation to restore the Madneuli deposit and adjacent affected sites will be fully borne by the Group/Company in 2029 one year after when based on management plans, the Group/Company operations will be ceased in 2028.

Because of the nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. Environmental legislation in Georgia continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites. In making this assumption management has followed the requirements of the Georgian Law on Mineral Resources.

The key assumptions, on which the site restoration provision was based as at 31 December 2018, were as follows:

- The total undiscounted amount of the estimated cash flows required for site restoration is GEL 48,244 thousand (2017: GEL 23,728 thousand).
- The timing of the provision is based on management’s estimate of when the Group/Company will cease extraction and processing of ore. Restoration costs were projected to be made in 10 years’ time (in 2028).
- The risk-free rate at which the estimated cash flows had been discounted was 8.7% (2017: 2.38%). The discount rate represented the nominal risk free rate adjusted for the estimated inflation. As at 31 December 2018, the Group/Company expects to incur costs related to the restoration in GEL (2017: in USD), which is the main reason why the risk-free rate in 2018 increased.

14. Intangible assets

Group:

'000 GEL	**Exploration, evaluation and mining license**	**Capitalized exploration and evaluation expenditure**	**Other**	**Total**
Cost				
Balance at 1 January 2017	20,538	5,560	1,121	27,219
Additions	-	288	881	1,169
Balance at 31 December 2017	**20,538**	**5,848**	**2,002**	**28,388**
Balance at 1 January 2018	20,538	5,848	2,002	28,388
Additions	-	6,914	369	7,283
Balance at 31 December 2018	**20,538**	**12,762**	**2,371**	**35,671**
Amortisation and impairment losses				
Balance at 1 January 2017	4,495	1,417	955	6,867
Amortisation for the year	1,781	468	107	2,356
Balance at 31 December 2017	**6,276**	**1,885**	**1,062**	**9,223**
Balance at 1 January 2018	6,276	1,885	1,062	9,223
Amortisation for the year	1,296	604	140	2,040
Balance at 31 December 2018	**7,572**	**2,489**	**1,202**	**11,263**
Carrying amounts				
At 1 January 2017	**16,043**	**4,143**	**166**	**20,352**
At 31 December 2017	**14,262**	**3,963**	**940**	**19,165**
At 31 December 2018	**12,966**	**10,273**	**1,169**	**24,408**

Company:

'000 GEL	**Exploration and evaluation licenses**	**Capitalized exploration and evaluation expenditure**	**Other**	**Total**
Cost				
Balance at 1 January 2017	20,538	5,560	1,115	27,213
Additions	-	288	881	1,169
Balance at 31 December 2017	**20,538**	**5,848**	**1,996**	**28,382**
Balance at 1 January 2018	20,538	5,848	1,996	28,382
Additions	-	6,914	369	7,283
Balance at 31 December 2018	**20,538**	**12,762**	**2,365**	**35,665**
Amortisation and impairment losses				
Balance at 1 January 2017	4,495	1,417	955	6,867
Amortisation for the year	1,781	468	106	2,355
Balance at 31 December 2017	**6,276**	**1,885**	**1,061**	**9,222**
Balance at 1 January 2018	6,276	1,885	1,061	9,222
Amortisation for the year	1,296	604	139	2,039
Balance at 31 December 2018	**7,572**	**2,374**	**1,200**	**11,261**
Carrying amounts				
At 1 January 2017	**16,043**	**4,143**	**160**	**20,346**
At 31 December 2017	**14,262**	**3,963**	**935**	**19,160**
At 31 December 2018	**12,966**	**10,273**	**1,165**	**24,404**

Intangible assets with carrying amount of GEL 12,966 thousand (2017: GEL 14,262 thousand) are pledged against a secured loan from Trafigura PTE.

15. Equity investment

	Group		Company	
’000 GEL	**2018**	**2017**	**2018**	**2017**
Non-current				
Equity investment	**4,001**	**4,001**	**4,001**	**4,001**

Investment measured at fair value through other comprehensive income represents an investment in 3.79% of the share capital of RMG Gold LLC (formerly Quartzite LLC), a fellow subsidiary. For the key inputs and assumptions used in the model to determine the fair value of the Investment measured at fair value through other comprehensive income as at 31 December 2018 see note 25(a).

No investments were disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Outstanding balance of dividends receivable represents the Company’s share of the dividends declared by RMG Gold LLC in 2013 and 2012 and is recorded based on the present value of the expected receipts discounted at an annual rate of 13.1%. Management expects to receive the dividends in the period from 2021 to 2025.

	Group		Company	
’000 GEL	**2018**	**2017**	**2018**	**2017**
Balance as at 1 January	34,467	32,729	34,467	32,729
Unwinding of discount	4,424	2,285	4,424	2,285
Foreign exchange gain/(loss)	1,356	(547)	1,356	(547)
Balance as at 31 December	**40,247**	**34,467**	**40,247**	**34,467**
Impairment allowance on dividends receivable	(459)	-	(459)	-
Balance at 31 December (non-current)	**39,788**	**34,467**	**39,788**	**34,467**

As at 31 December 2018 and 2017 the shares in RMG Gold LLC are pledged against secured loans (see note 22).

16. Inventories

	Group		Company	
’000 GEL	**2018**	**2017**	**2018**	**2017**
Raw materials and consumables	14,364	12,068	14,306	12,010
Work in progress	3,287	1,760	3,287	1,760
Finished goods	2,112	2,514	2,112	2,514
	19,763	**16,342**	**19,705**	**16,284**

In 2018 raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to GEL 155,424 thousand (2017: GEL 115,785 thousand).

Raw materials and consumables in 2018 include provisions for slow moving items of GEL 6,894 thousand (2017: GEL 6,894 thousand) which remained the same as it was in prior year. There was obsolescence provision on finished goods amounted GEL 267 thousand as at 31 December 2018 (2017: GEL 267 thousand).

The carrying amount of work in progress is net of a write off in respect of ore that is not usable for production purposes in 2018 of GEL 514 thousand (2017: GEL 6,460 thousand).

In 2018 reversal of previously written-down work in progress amounted to nil (2017: GEL 294 thousand). The inventory write-offs, reversal of write-downs and changes in provisions are included in other expenses (see note 10).

17. Loans receivable

	Group		Company	
‘000 GEL	**2018**	**2017**	**2018**	**2017**
Non-current asset				
Loans to related parties	10,508	28,330	10,508	28,330
	10,508	**28,330**	**10,508**	**28,330**
Current asset				
Loans to related parties	-	413	-	413
	-	**413**	**-**	**413**

Terms and debt repayment schedule

Terms and conditions of loans receivable were as follows:

Group/Company				**31 December 2018**		**31 December 2017**	
‘000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face Value**	**Carrying amount**	**Face value**	**Carrying amount**
Loans to related parties	GEL	12.5%	On demand	-	-	413	413
Loans to related parties	USD	12.5%	2025	5,318	5,318	5,129	5,129
Loans to related parties	USD	12.5%	2020	5,190	5,190	23,201	23,201
				10,508	**10,508**	**28,743**	**28,743**

18. Trade and other receivables

	Group		Company	
’000 GEL	**2018**	**2017**	**2018**	**2017**
Receivables from sales of copper concentrate and cement copper	6,530	11,493	6,530	11,506
Prepayments	9,908	3,624	9,794	3,510
Receivables from related parties	3,217	2,762	3,217	2,762
Other trade receivables	992	1,540	957	1,492
Trade receivables included in loans and receivables category	**20,647**	**19,419**	**20,498**	**19,270**

The Group’s/Company’s exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 25.

19. Cash and cash equivalents

	Group		Company	
’000 GEL	**2018**	**2017**	**2018**	**2017**
Bank balances	489	2,504	477	2,492
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**489**	**2,504**	**477**	**2,492**

The Group’s/Company’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

20. Share capital and reserves

(a) Share capital

The authorized number of ordinary shares of the Group/Company are 24,330,195 (2017: 24,330,195), with a nominal value per share of USD 1. As at 31 December 2018 and 2017 the GEL equivalent of the share capital was GEL 36,189 thousand.
All authorized shares have been issued and fully paid as of 31 December 2018 and 2017.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends and other distributions

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's IFRS consolidated and separate financial statements.

(c) Reserves

Reserves comprises the cumulative net change in the fair value of equity investment measured at fair value through other comprehensive income until the investments are derecognized or impaired.

21. Capital management

The Group/Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's/Company's operational and strategic needs, and to maintain confidence of market participants. This is achieved with assistance of the Rich Metals Group entities, monitoring of the Group's/Company's revenues and profit, and long-term investment plans mainly financed by the Group's/Company's operating cash flows and obtained loans and borrowings facilities.

The Group's/Company's debt to capital ratio at 31 December was as follows:

	Group		**Company**	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Total liabilities	110,354	194,502	111,593	195,741
Less: cash and cash equivalents	489	2,504	477	2,492
Net debt	**109,865**	**191,998**	**111,116**	**193,249**
Total equity	104,952	14,970	103,971	13,990
Net debt to equity ratio at 31 December	**1.05**	**12.8**	**1.1**	**13.8**

There were no changes in the Group's/Company's approach to capital management during the year.

22. Loans and borrowings

This note provides information about the contractual terms of the Group's/Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's/Company's exposure to interest rate, foreign currency and liquidity risk, see note 25.

	Group		**Company**	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Non-current liabilities				
Secured bank loan	11,840	3,657	11,840	3,657
	11,840	**3,657**	**11,840**	**3,657**
Current liabilities				
Secured loan	506	49,466	506	49,466
Loans from related parties	20,726	28,165	20,598	28,037
Secured bank loan	6,710	11,420	6,710	11,420
	27,942	**89,051**	**27,814**	**88,923**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

Group				**31 December 2018**		**31 December 2017**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured loan	USD	LIBOR+7.67%	2018	506	506	49,466	49,466
Loans from related parties	USD	12.5%	2018	-	-	353	353
Loans from related parties	USD	11%	On demand	12,719	12,719	20,786	20,786
Loans from related parties	USD	11%-12%	2019	8,007	8,007	7,026	7,026
Secured bank loan	USD	9.25%	2019-2020	13,976	13,976	-	-
Secured bank loan	USD	10.75%	2018	-	-	119	119
Secured bank loan	EUR	10.75%	2018	-	-	545	545
Secured bank loan	EUR	6.3%	2018	-	-	870	870
Secured bank loan	USD	12%	2019-2020	4,574	4,574	5,603	5,603
Secured bank loan	USD	10.75%	2018	-	-	2,626	2,626
Secured bank loan	USD	10.25%	2018	-	-	5,314	5,314
				39,782	**39,782**	**92,708**	**92,708**

Company				**31 December 2018**		**31 December 2017**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured loan	USD	LIBOR+7.67%	2018	506	506	49,466	49,466
Loans from related parties	USD	12.50%	2020	-	-	353	353
Loans from related parties	USD	11%	On demand	12,719	12,719	20,786	20,786
Loans from related parties	USD	11%-12%	2019	7,879	7,879	6,898	6,898
Secured bank loan	USD	9.25%	2020	13,976	13,976	-	-
Secured bank loan	USD	10.75%	2018	-	-	119	119
Secured bank loan	EUR	10.75%	2018	-	-	545	545
Secured bank loan	EUR	6.30%	2018	-	-	870	870
Secured bank loan	USD	12%	2020	4,574	4,574	5,603	5,603
Secured bank loan	USD	10.75%	2018	-	-	2,626	2,626
Secured bank loan	USD	10.25%	2018	-	-	5,314	5,314
				39,654	**39,654**	**92,580**	**92,580**

Reconciliation of movements of liabilities to cash flow arising from financing activity

'000 GEL	Group	Company
Balance 1 January 2018	**92,708**	**92,580**
Changes from financing cash flows:		
Proceeds from borrowings	39,905	39,905
Repayment of borrowings	(48,903)	(48,903)
Total changes from financing cash flows	**(8,998)**	**(8,998)**
The effect of changes in foreign exchange rates	**65**	**69**
Other changes		
Liability-related		
Interest expense	5,927	5,927
Net off with trade and other receivables*	(49,920)	(49,924)
Total liability-related other changes	(43,993)	(43,997)
Balance as at 31 December 2018	**39,782**	**39,654**

'000 GEL	Group	Company
Balance 1 January 2017	**130,082**	**129,954**
Changes from financing cash flows:		
Proceeds from borrowings	43,187	43,187
Repayment of borrowings	(35,156)	(35,156)
Total changes from financing cash flows	**8,031**	**8,031**
The effect of changes in foreign exchange rates	**(3,017)**	**(3,017)**
Other changes		
Liability-related		
Interest expense	9,961	9,819
Net off with trade and other receivables*	(52,349)	(52,207)
Total liability-related other changes	**(42,388)**	**(42,388)**
Balance as at 31 December 2017	**92,708**	**92,580**

***** Net off with trade and other receivables represents non-cash repayments of borrowings from Trafigura PTE LTD according to the agreement signed between parties. The Group/Company sells the copper-gold concentrate to Trafigura PTE LTD.

Breach of loan covenant

As at 31 December 2018 and as 31 December 2017 the Group/Company was in compliance of financial covenants related to Trafigura PTE LTD loan agreement, however, the Group/Company was not in compliance with a non-financial covenant, according to which the Group/Company shall supply to Trafigura PTE LTD with audited consolidated and separate financial statements for that financial year within one hundred and fifty (150) days after the end of its financial year. As the breach of the non-financial covenant resulted to an 'Event of Default' per the same loan agreement, the Group/Company has classified total outstanding secured loan balance of GEL 506 thousand due to Trafigura PTE LTD as a current liability as at 31 December 2018 (2017: GEL 49,466 thousand).

23. Trade and other payables

	Group		Company	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Trade payables	44,512	79,315	46,039	80,842
Salary and other liabilities to employees	3,633	3,113	3,472	2,952
Other	203	166	204	167
	48,348	**82,594**	**49,715**	**83,961**

The Group's/Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

24. Tax assets

Tax authorities introduced unified tax card for all types of taxes, therefore since 2017 the Group/Company does not record tax accounts separately and shows net result of tax position as an asset in amount of GEL 1,299 thousand in the consolidated statement of financial position (2017: net tax position of asset in amount of GEL 4,254 thousand). Net result of the tax position as an asset of GEL 1,796 thousand is presented in the separate statement of financial position (2017: net tax position as an asset of GEL 4,751 thousand).

25. Fair values and risk management

(a) Fair value hierarchy

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

Group '000 GEL	**Carrying amount**	**Level 2**	**Total**
31 December 2018			
Receivables from sales of copper concentrate and cement copper	**6,530**	**6,530**	**6,530**

'000 GEL	**Carrying amount**	**Level 2**	**Total**
31 December 2017			
Receivables from sales of copper concentrate and cement copper	**11,493**	**11,493**	**11,493**

Company '000 GEL	**Carrying amount**	**Level 2**	**Total**
31 December 2018			
Receivables from sales of copper concentrate and cement copper	**6,543**	**6,543**	**6,543**
31 December 2017			
Receivables from sales of copper concentrate and cement copper	**11,506**	**11,506**	**11,506**

Group/Company '000 GEL	**Carrying amount**	**Level 3**	**Total**
31 December 2018			
Equity securities	**4,001**	**4,001**	**4,001**
31 December 2017			
Equity securities	**4,001**	**4,001**	**4,001**

The following table shows the carrying amounts of financial instruments not measured at fair value as at 31 December 2018.

’000 GEL	Notes	IFRS 9	Group	Company
Financial assets				
Dividends receivable	15	Amortised cost	39,788	39,788
Loans receivable	17	Amortised cost	10,508	10,508
Other receivables	18	Amortised cost	4,209	4,161
Cash and cash equivalents	19	Amortised cost	489	477
Recognized financial assets			**54,994**	**54,934**

’000 GEL	Notes	IFRS 9	Group	Company
Financial liabilities				
Loans and borrowings	22	Other financial liabilities	39,782	39,654
Trade and other payables	23	Other financial liabilities	44,715	46,243
Total financial liabilities			**84,497**	**85,897**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Group/Company

	Level 3	
’000 GEL	**2018**	**2017**
Balance at 1 January	4,001	4,001
Total impairment losses recognised in profit or loss	-	-
Balance at 31 December	**4,001**	**4,001**

The Group/Company has a 3.79% ownership in non-listed fellow subsidiary- RMG Gold LLC and the investment is recognized at fair value as an investment at fair value through other comprehensive income. Because of limited market activity in the shares, the valuation is not benchmarked against observed transaction prices. Instead, the Group/Company applies revenue multiple approach to derive the fair value of the investment in RMG Gold LLC, therefore the investment is classified as a level 3 asset.

Although the Group/Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

Group/Company

2018	**Effect on total comprehensive income**	
’000 GEL	**Favorable**	**Unfavorable**
10% change in revenue multiple	286	(286)
20% change in revenue multiple	560	(560)

2017	**Effect on total comprehensive income**	
’000 GEL	**Favorable**	**Unfavorable**
10% change in revenue multiple	248	(248)
20% change in revenue multiple	496	(496)

(b) Financial risk management

The Company and the Group have exposure to the following risks from its use of financial instruments:

- credit risk (see 25(c));
- liquidity risk (see 25(d));
- market risk (see 25(e)).

This note presents information about the Group's/Company's exposure to each of the above risks, the Group's/Company's objectives, policies and processes for measuring and managing risk, and the Group's/Company's management of capital. Further quantitative disclosures are included throughout these consolidated and separate financial statements.

Risk management framework

The Supervisory Board has overall responsibility for the establishment and oversight of the Group's/Company's risk management framework.

The Group's/Company's risk management policies are established to identify and analyze the risks faced by the Group/Company , to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's/Company's activities. The Group/Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(c) Credit risk

Credit risk is the risk of financial loss to the Group/Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's/Company's receivables from customers, loans receivable and dividends receivable.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk for recognized financial assets and unrecognized commitments at the reporting date was:

	Group		Company	
	Carrying amount		Carrying amount	
'000 GEL	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Dividends receivable	39,788	34,467	39,788	34,467
Loans receivable	10,508	28,743	10,508	28,743
Trade and other receivables	10,739	15,795	10,704	15,760
Cash and cash equivalents	489	2,504	477	2,492
Recognized financial assets	**61,524**	**81,509**	**61,477**	**81,462**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Group		Company	
	Carrying amount		Carrying amount	
'000 GEL	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
European countries	6,312	11,493	6,277	11,506
Domestic	4,427	4,302	4,427	4,254
	10,739	**15,795**	**10,704**	**15,760**

(ii) Trade and other receivables

Trade receivables (subject to provisional pricing) are non-interest bearing and are exposed to future commodity price movements over the quotation period ("QP") and, hence, fail the SPPI test and classified as fair value through profit or loss financial asset. These trade receivables are initially measured the amount which the Group/Company expects to be entitled, being the estimate of the price expected to be received at the end of the QP.

The Group/Company does not require collateral in respect of trade and other receivables.

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables measured at amortized cost as at 31 December 2018:

	Group		**Company**	
’000 GEL	**31 December 2018**	**31December 2018**	**31 December 2018**	**31 December 2018**
Credit risk grade	**Not credit impaired**	**Total**	**Not credit impaired**	**Total**
Low risk	4,209	4,209	4,161	4,161
Total gross carrying amount	**4,209**	**4,209**	**4,161**	**4,161**
Loss allowance	-	-	-	-
Total net carrying amount	**4,209**	**4,209**	**4,161**	**4,161**

As at 31 December 2018, trade receivables (subject to provisional pricing) in amount of GEL 6,530 thousand (2017: GEL 11,493 thousand) are measured at fair value through profit or loss and are not subject to expected credit loss calculation as per IFRS 9.

Trade and other receivables as at 31 December 2018 are classified under stage 1 category of expected credit loss model.

(iii) Dividends receivable

The Group’s/Company’s dividend receivable relates to dividend receivable that per the Group’s/Company’s management’s expectation will be settled in 2021-2025 from RMG Gold LLC where the Company owns 3.79% of share capital (see note 15.)

The following table provides information about the exposure to credit risk and ECLs for dividend receivables as at 31 December 2018:

	Group/Company	
’000 GEL	**31 December 2018**	**31 December 2018**
Credit risk grade	**Not credit impaired**	**Total**
Low risk	40,247	40,247
Total gross carrying amount	**40,247**	**40,247**
Loss allowance	(459)	(459)
Total net carrying amount	**39,788**	**39,788**

Low risk - the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Dividends receivables as at 31 December 2018 are classified under stage 1 category of expected credit loss model.

Expected credit loss assessment as at 1 January and 31 December 2018

The key inputs into the measurement of expected credit loss (ECL) are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The Group/Company further discounts EAD from default date to the reporting date.

The probability of default of loans given and dividend receivables is evaluated by an individual approach by an expert on a rating system based on a scoring questionnaire. The country's rating is the base of the probability of basic default that represents a rating and lower bound for the loans given and dividend receivables. The Group/Company uses Moody's default study as an external benchmark of PD.

The Group/Company estimates LGD using different scenarios of expected repayment of financial assets.

EAD represents the expected exposure in the event of a default. The Group/Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default.

(iv) Loans receivable

The Group's/Company's policy is to provide loans mainly to related parties. The Group/Company does not require collateral in respect of loans receivable from related parties. Terms of the issued loans are described in note 17.

Per management's assessment counterparties have strong capacity to meet their contractual cash flows, thus associated credit risk is low and expected credit loss recorded as at 1 January 2018 and 31 December 2018 equals to GEL 1,679 thousand (note 5(b)) and GEL 1,112 thousand, respectively.

The following table provides information about the exposure to credit risk and ECLs for loans receivable as at 31 December 2018:

	Group	
'000 GEL	**31 December 2018**	**31 December 2018**
Credit risk grade	**Not credit impaired**	**Total**
Low risk	11,075	11,075
Total gross carrying amount	**11,075**	**11,075**
Loss allowance	(567)	(567)
Total net carrying amount	**10,508**	**10,508**

Low risk - the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Loans receivable as at 31 December 2018 are classified under stage 1 category of expected credit loss model.

Methodology for the calculation of ECL is described above in note 25 c (iii).

The Group/Company defines above grades as follows:

Low risk - the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Medium risk - the borrower has a restructured, contractual cash flow obligations to meet in the near term and adverse changes in economic and business conditions in the longer term may likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

High risk - the counterparties have a week capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may likely increase the ability of the counterparties to fulfil their contractual cash flow obligations.

(v) Cash and cash equivalents

The Group held amount of cash and cash equivalents of GEL 489 thousand at 31 December 2018, (2017: GEL 2,504 thousand). The Company held amount of cash and cash equivalents of GEL 477 thousand at 31 December 2018 (2017: GEL 2,492 thousand).

The cash and cash equivalents are held with bank, which is rated BB- based on Fitch ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group/Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

(vi) Movement in the allowance for impairment

The movement in the allowance for impairment in respect of loans and dividends receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	Group/Company		
’000 GEL	**2018**	**2018**	**2018**
	Dividends receivable	**Loans receivable**	**Total**
Balance as at 1 January under IAS 39	**-**	**3,349**	**3,349**
Adjustment on initial application of IFRS 9	393	657	1,050
Balance at 1 January under IFRS 9	**393**	**4,006**	**4,399**
Credit loss charged for 2018	66	-	66
Write off	-	(3,439)	(3,439)
Balance at 31 December	**459**	**567**	**1,026**

(d) Liquidity risk

Liquidity risk is the risk that the Group/Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s/Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s/Company’s reputation.

Typically, the Group/Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 1 month, including the servicing of financial obligations.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

Group

31 December 2018 ’000 GEL	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 mths**	**2-12 mths**	**1-2 yrs**	**2-5 yrs**
Loans and borrowings	39,782	41,925	12,753	1,785	14,753	12,634	-
Trade and other payables	44,715	44,715	-	44,715	-	-	-
	84,497	**86,640**	**12,753**	**46,500**	**14,753**	**12,634**	**-**

31 December 2017 ’000 GEL	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 mths**	**2-12 mths**	**1-2 yrs**	**2-5 yrs**
Loans and borrowings	92,708	94,036	77,314	7,012	5,667	2,109	1,934
Trade and other payables	79,481	79,481	-	79,481	-	-	-
	172,189	**173,517**	**77,314**	**86,493**	**5,667**	**2,109**	**1,934**

Company

31 December 2018 ’000 GEL	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 mths**	**2-12 mths**	**1-2 yrs**	**2-5 yrs**
Loans and borrowings	39,654	41,069	12,519	1,702	14,214	12,634	-
Trade and other payables	46,243	46,243	-	46,243	-	-	-
	85,897	**87,312**	**12,519**	**47,945**	**14,214**	**12,634**	**-**

31 December 2017 ’000 GEL	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 mths**	**2-12 mths**	**1-2 yrs**	**2-5 yrs**
Loans and borrowings	92,580	93,180	77,080	6,929	5,128	2,109	1,934
Trade and other payables	81,009	81,009	-	81,009	-	-	-
	173,589	**174,189**	**77,080**	**87,938**	**5,128**	**2,109**	**1,934**

As at 31 December 2018 and as at 31 December 2017 the Group/Company was in compliance of financial covenants related to Trafigura PTE LTD loan agreement, however, the Group/Company was not in compliance with a non-financial covenant, according to which the Group/Company shall supply to Trafigura PTE LTD with audited consolidated and separate financial statements for that financial year within one hundred and fifty (150) days after the end of its financial year. According to the same loan agreement breach of the non-financial covenant resulted to ‘Event of Default’ giving right to Trafigura PTE LTD to request the loans repayment on demand. As a result, the Group/Company has classified total outstanding loan due to Trafigura PTE LTD as a current liability as at 31 December 2018 and as at 31 December 2017 (see note 22).

Remaining balance of borrowing from Trafigura PTE LTD is GEL 506 thousand as at 31 December 2018, hence management believes that this will not create liquidity risk to the Group/Company.

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s/Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group/Company does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group/Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currency in which these transactions primarily are denominated is the U.S. Dollar (USD).

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group/Company, primarily USD. This provides an economic hedge without a need to enter into derivative contracts.

The Group/Company has no formal policy for managing currency risk, but currency risk is mitigated as a significant amount of revenue transactions in USD.

Exposure to currency risk

The Group's/Company's exposure to foreign currency risk was as follows based on notional amounts:

Group

'000 GEL 31 December	USD-denominated 2018	EUR-denominated 2018	USD-denominated 2017	EUR-denominated 2017
Dividends receivable	39,788	-	34,467	-
Loans receivable	10,508	-	28,330	-
Trade receivables	6,530	-	11,653	-
Cash and cash equivalents	489	-	2,148	20
Loans and borrowings	(39,782)	-	(91,293)	(1,415)
Trade and other payables	(2,654)	(267)	(1,883)	(267)
Net exposure	**14,879**	**(267)**	**(16,578)**	**(1,662)**

Company

'000 GEL 31 December	USD-denominated 2018	EUR-denominated 2018	USD-denominated 2017	EUR-denominated 2017
Dividends receivable	39,788	-	34,467	-
Loans receivable	10,508	-	28,330	-
Trade receivables	6,530	-	11,710	-
Cash and cash equivalents	477	-	2,148	20
Loans and borrowings	(39,654)	-	(91,165)	(1,415)
Trade and other payables	(2,654)	(267)	(1,883)	(267)
Net exposure	**14,995**	**(267)**	**(16,393)**	**(1,662)**

The following significant exchange rates have been applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**2018**	**2017**
USD 1	2.5345	2.5086	2.6766	2.5922
EUR 1	2.9913	2.8322	3.0701	3.1044

Sensitivity analysis

A strengthening of the GEL, as indicated below, against all other currencies at 31 December 2018 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group/Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

Group

'000 GEL	**Strengthening**	**Weakening**
31 December 2018		
USD (10% strengthening)	1,500	(1,500)
EUR (10% strengthening)	(27)	27
31 December 2017		
USD (10% strengthening)	(1,658)	1,658
EUR (10% strengthening)	(166)	166

Company **'000 GEL**	**Strengthening**	**Weakening**
31 December 2018		
USD (10% movement)	1,500	(1,500)
EUR (10% movement)	(27)	27
31 December 2017		
USD (10% movement)	(1,639)	1,639
EUR (10% movement)	(166)	166

A weakening of the GEL against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's/Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group/Company over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group's/Company's interest-bearing financial instruments was as follows:

Group

	Carrying amount	
'000 GEL	**2018**	**2017**
Fixed rate instruments		
Financial assets	10,508	28,743
Financial liabilities	(39,276)	(43,242)
	(28,768)	**(14,499)**
Variable rate instruments		
Financial liabilities	**(506)**	**(49,466)**

Company

	Carrying amount	
'000 GEL	**2018**	**2017**
Fixed rate instruments		
Financial assets	10,508	28,743
Financial liabilities	(39,148)	(43,114)
	(28,640)	**(14,371)**
Variable rate instruments		
Financial liabilities	**(506)**	**(49,466)**

Fair value sensitivity analysis for fixed rate debt instruments

The Group/Company does not account for any fixed rate debt financial instruments as fair value through profit or loss or fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss net of taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Group/Company	**Profit or loss**	
'000 GEL	**100 bp increase**	**100 bp decrease**
2018		
Variable rate instruments	(5)	5
Cash flow sensitivity	**(5)**	**5**

	Profit or loss	
'000 GEL	**100 bp increase**	**100 bp decrease**
2017		
Variable rate instruments	(495)	495
Cash flow sensitivity	**(495)**	**495**

(iii) Other market price risk

Equity price risk arises from equity investment measured at fair value through other comprehensive income which are non-listed.

The Group/Company has a risk related to the threat that a change in the price of gold and copper concentrate will adversely impact the financial results of the Group/Company. Factors that can affect such prices include political changes, demand and supply, technology and other market conditions.

26. Investment in subsidiaries

The Company does not have significant subsidiaries as of the reporting dates.

Set out below is a list of subsidiaries of the Group.

Subsidiary	**Country of incorporation**	**2018 Ownership/voting**	**2017 Ownership/voting**
Belaz Kavkaz Trans Service LLC	Georgia	50%	50%
Trans Petg Mzidi LLC	Georgia	50%	50%

As at 31 December 2018 and 2017 management has determined that the Group controls Belaz Kavkaz Trans Service LLC and Trans Petg Mzidi LLC by virtue of an agreement with other shareholders.

27. Commitments

During the year ended 31 December 2018 the Group's/Company's management announced publicly to the parties effected, that the Group/Company will incur expenditures towards reduction of future environmental contamination of the operating site Group/Company is committed to incur GEL 14 million during the period from 2019 to 2020. Commitments relate to capital expenditures such as building new structures to avoid further contamination of the mine and its surrounding areas.

28. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group/Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group/Company property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's/Company's operations and financial position.

(b) Litigation

The Group/Company was involved as a defendant in the claim related to Settlement Agreement between RMG Copper JSC (Defendant) and Georgian Copper AG (Claimant) executed back in 2003:

Subject of the legal case relates to prepayments received by RMG Copper JSC from Glencor LLC for the sale of copper-gold concentrate. Transaction happened in 1998 and was based on the normal contractual terms of the sales and purchase of copper-gold concentrate. Subsequently the claim on the balance of the prepayments received by RMG Copper JSC from Glencor LLC (not related party to the Group/Company) had been transferred to Georgia Copper AG (not related party to the Group/Company). Georgia Copper AG initiated court case against RMG Copper JSC requesting the amount of prepayments given by Glencor LLC to the Group/Company. RMG Copper JSC argues that the prepayment balance has been properly settled and RMG Copper JSC does not have obligation towards Georgia Copper AG.

On 22 April 2016 and 19 May 2016 RMG Copper JSC received letters via e-mail from a Swiss law firm, Homburger AG, and was informed that pursuant to the court decision of the Cantonal Court of Zug, Switzerland, dated 12 June 2014, the payment of the following sums in favor of the claimant:
USD 3,067 thousand for damages and USD 1,998 thousand (9% p.a.) for interest.

Defendant argues that above-mentioned decision was issued in violation of Georgian legislation, without prior notification of Defendant. RMG Copper JSC appealed the decision in the Cantonal Court of Zug and submitted the documentation that the defendant has no obligation regarding the claim. As of the date these consolidated separate financial statements are authorized for issue final decision has not been made with respect to the above case. Management believes and confident that the Group/Company has complied with all contractual requirements between the Group and the Claimant, and that they have all basis and supporting documents that the Group will not lose this legal case.

(c) Taxation contingencies

The taxation system in Georgia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Operational risks

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group's/Company's control and could impact the Group's/Company's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions and adverse claims to water rights, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of or failure to receive necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) uncertainty of exploration and development, (x) delays in transportation, (xi) labor disputes, (xii) inability to obtain satisfactory insurance coverage, (xiii) unavailability of materials and equipment, (xiv) the failure of equipment or processes to operate in accordance with specifications or expectations, (xv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xvi) the results of financing efforts and financial market conditions.

29. Related parties

(a) Control relationships

The Group's/Company's immediate parent company is Rich Metals Group B.V. Limited. The Group's/Company's ultimate parent companies are Suncort Enterprises LTD and Ticola Holding Limited. As at 31 December 2018 the Group/Company is ultimately controlled by Dmitry Troitsky, (2017: ultimately controlled by Dmitry Troitsky and Dmitry Korzhev).

No publicly available consolidated and separate financial statements are produced by the Group's/Company's ultimate controlling party or any intermediate parent Company.

(b) Transactions with key management personnel

Key management received the following remuneration during the year which is included in administrative expenses (see note 9):

	Group/Company	
'000 GEL	**2018**	**2017**
Salaries and bonuses	**1,922**	**3,476**

(c) Transactions with other related parties

The Group's/Company's other related party transactions are disclosed below.

(i) Income

Group

'000 GEL	**Transaction value**		**Outstanding balance as at 31 December**	
	2018	**2017**	**2018**	**2017**
Sale of goods:				
Fellow subsidiaries	7,405	5,210	-	-
Services provided:				
Fellow subsidiaries	24,834	15,302	88	160
Dividend income:				
Fellow subsidiaries	-	-	39,788	34,467
Interest income:				
Fellow subsidiaries	4,228	1,657	1,755	2,239

Company '000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2018	2017	2018	2017
Sale of goods:				
Fellow subsidiaries	7,405	5,210	-	-
Services provided:				
Fellow subsidiaries	24,834	15,302	88	4,094
Dividend income:				
Fellow subsidiaries	-	-	39,788	34,467
Interest income:				
Fellow subsidiaries	4,228	1,657	1,755	2,239

All outstanding balances with related parties, except dividend receivable, are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Expenses

Group '000 GEL	Transaction value		Outstanding balance	
	2018	2017	2018	2017
Purchase of goods:				
Fellow subsidiaries	56,103	38,909	23,407	59,473
Service received:				
Fellow subsidiaries	15,722	7,526	1,400	773
Interest expense:				
Entities under joint control of ultimate controlling party	2,084	1,958	5,459	7,244
Other:				
Fellow subsidiaries	1,959	68	489	353

Company	Transaction value		Outstanding balance	
'000 GEL	2018	2017	31 December 2018	31 December 2017
Purchase of goods:				
Fellow Subsidiaries	56,103	38,909	23,407	59,473
Service Received:				
Fellow subsidiaries	15,722	7,526	627	-
Entities under joint control of ultimate controlling party	2,084	1,958	5,459	7,244
Other:				
Fellow subsidiaries	1,959	68	489	353

All outstanding balances with related parties except for dividends and loans receivable are to be settled within six months of the reporting date. None of the balances are secured.

(iii) Loans

Group	Amount loaned		Outstanding balance	
'000 GEL	2018	2017	2018	2017
Loans and borrowings:				
Fellow subsidiaries	-	11,593	20,726	28,165
Loans receivable:				
Fellow subsidiaries	(16,950)	21,808	10,508	28,743

Company

	Amount loaned		Outstanding balance	
'000 GEL	**2018**	**2017**	**2018**	**2017**
Loans and borrowings*:*				
Fellow subsidiaries	-	11,593	20,598	28,037
Loans receivable*:*				
Fellow subsidiaries	(16,950)	21,808	10,508	28,743

Terms of loans and borrowings and loans and receivable are disclosed in the note 22 and note 17 respectively.

30. Correction of errors

When preparing the consolidated and separate financial statements for the year ended 31 December 2018, the management of the Group identified that stripping activity asset included in mine property was incorrectly calculated, resulted in historical overstatement of stripping activity assets capitalization and understatement of cost of sales and accumulated losses. Namely, management identified that in the calculation of stripping activity asset the management used incorrect 'mining plan' based on different technical approach which was not consistent with the actual approach that management historically applied in practice.

The following tables summarize the impact on consolidated statements of financial position and profit or loss and other comprehensive income, and cash flows:

		Consolidated statement of financial position		
1 January 2017	**Note**	**As previously reported**	**Adjustments**	**As restated**
'000 GEL				
Property, plant and equipment (includes reclamation provision asset)				
(stripping activity assets included in mine property)	12	61,680	(37,603)	24,077
Equity		16,737	37,603	54,340

		Consolidated statement of financial position		
31 December 2017	**Note**	**As previously reported**	**Adjustments**	**As restated**
'000 GEL				
Property, plant and equipment (includes reclamation provision asset)				
(stripping activity assets included in mine property)	12	79,641	(46,232)	33,408
Equity		(61,203)	46,233	(14,970)

		Consolidated statement of profit and loss and other comprehensive		
2017	**Note**	**As previously reported**	**Adjustments**	**As restated**
'000 GEL				
Cost of sales	7	107,156	8,629	115,785

		Consolidated statement of cash flows		
2017 **'000 GEL**	**Note**	**As previously reported**	**Adjustments**	**As restated**
Net cash from operating activities		52,945	13,380	39,565
Net cash used in investing activities		(58,695)	(13,380)	(45,315)

The impact of above correction on the Company's separate statements of financial position and profit or loss and other comprehensive income as at 1 January 2017 and as at and for the year ended 31 December 2017 are same with immaterial differences.

In addition to above, for the purposes of more clarity for stakeholders and be in consistent in presentation with other mining entities in the group, the Management separated capitalized reclamation provision (asset) in amount of GEL 15,861 thousand (2017: GEL 14, 624 thousand) from mine property and shown as a separate category in property, plant and equipment as at and for the years ended 31 December 2018 and 2017, note 12.

31. Basis of measurement

The consolidated and separate financial statements are prepared on the historical cost basis except that investments classified as fair value through other comprehensive income and trade receivable (subject to provisional pricing) classified at fair value through profit or loss, that are stated at fair value.

32. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Revenue recognition

The Group/Company has initially applied IFRS 15 from 1 January 2018. The effect of initially applying IFRS 15 is described in note 5.

(i) Goods

Contract terms for the Group’s and Company's sales of copper-gold concentrate to customer allow for price adjustments based on the market price at the relevant quotation point stipulated in the contract. These are referred to as provisional pricing arrangements and are such that the selling price for copper-gold concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (the quotation period, or QP). Adjustments to the sales price occur based on movements in quoted market prices up to the end of the QP. The period between provisional invoicing and the end of the QP can be between one and three months.

Revenue is recognised when control passes to the customer, which occurs at a point in time the concentrate is loaded into the railcars at the Company's mine. The revenue is measured at the amount to which the Group/Company expects to be entitled, being the estimate of the price expected to be received at the end of the QP, i.e., the forward price, and a corresponding trade receivable is recognised.

For provisional pricing arrangements, any future changes that occur over the QP are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15. Given the exposure to the commodity price, these provisionally priced trade receivables fail the cash flow characteristics test within IFRS 9 and are therefore measured at fair value through profit or loss up from initial recognition and until the date of settlement. These subsequent changes in fair value are recognised in the statement of profit or loss and other comprehensive income each period and presented separately from revenue from contracts with customers as part of ‘Fair value gains/losses on provisionally priced trade receivables’ (if material). Changes in fair value over, and until the end of, the QP, are estimated by reference to updated forward market prices for copper-gold concentrate.

Payment terms: when the sale transaction occurs, counterparty shall pay 90% of the total provisional value upon receipt of the below listed documentation:

- Holding certificate;
- Seller's provisional invoice;
- Provisional weight, moisture and assay certificates.

Final payment is due within three banking days after the date of final assays, when weights and prices are known.

(ii) Services

The Group/Company generates revenue from the various services provided to RMG Gold LLC which relates to mine operations (drilling, blasting, transportation etc.). The Group/Company concluded that revenue for services is to be recognized over time as a service is rendered, because the customer simultaneously receives and consumes the benefits provided by the Group/Company. Service is billed and payment is due upon completion of the service and issue of invoice. Considering short term nature of the services (1-2 days), revenue for the services is recognized for simplification purposes on their completion.

(c) Finance income and costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- income from discount unwinding;
- the foreign currency gain or loss on financial assets and financial liabilities;

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or
– the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(d) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group/Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(e) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

As at 31 December 2016 the enacted tax law mainly moves the moment of taxation from when taxable profits are earned to when they are distributed.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective at a later date.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Group/Company considers the taxation of such transaction as outside of the scope of IAS 12 Income Taxes and accounts for the tax on such items as taxes other than on income.

(ii) Deferred tax

Due to the nature of the new taxation system described above, the entities registered in Georgia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.
Tax losses accrued in the prior periods cannot be utilized against the future taxable profits.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditures

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group/Company.
The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Production stripping costs that improve access to ore to be mined in the future are recognised as an addition to mining property if, and only if, all of the following criteria are met:

- it is probable that future economic benefits will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line or unit of production basis. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative period are as follows:

- plant and equipment 9 years;
- motor vehicles 6-7 years;
- dams and roads 8 years;
- buildings 16-17 years;
- mine property unit of production method;
- capitalized reclamation provision (asset) 10 years;
- other 5 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Mining property is composed of stripping activity asset which is depreciated by unit of production method.

(g) Intangible assets

Intangible assets that are acquired by the Group/Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(i) Exploration and evaluation expenditure

The capitalized expenditure includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Expenditure incurred to explore and evaluate new ore bodies, to define mineralization of existing ore bodies, to establish or expand production capacity, is capitalized upon the completion of an economic evaluation equivalent to a prefeasibility study, at which point costs start being amortized as set out below. This economic evaluation is distinguished from a prefeasibility study in that some of the information that would normally be determined in a prefeasibility study is instead obtained from the existing mine or development. This information when combined with existing knowledge of the mineral property already being mined or developed allows management to conclude that more likely than not the Group will obtain the future economic benefits from the expenditures.

Exploration and evaluation expenditure are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Amortisation

Exploration and evaluation expenditure

Exploration and evaluation expenditure are amortized on a straight-line basis over the estimated lifetime of mine and amortization is recognized in profit or loss.

Other intangible assets

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current is as follows:

- exploration license 10 years;
- other (software, license) 3-4 years.

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Financial instruments

Policy applicable from 1 January 2018

The Group/Company applies IFRS 9 Financial Instruments for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Recognition and initial measurement

Trade receivables that are not measured at fair value through profit or loss are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group/Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement of financial assets

Financial assets - Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group/Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

It is held within a business model whose objective is to hold assets to collect contractual cash flows; and Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group/Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group/Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group's/Company's financial assets comprise the following classes of financial assets: Trade receivables and other receivable (note 18), Cash and cash equivalents (note 19), Dividends receivable (note 15), Loans receivable (note 17) except for trade receivables (subject to provisional pricing) all financial assets are measured at amortised cost using the effective interest method. Trade receivables (subject to provisional pricing) are classified at instrument at fair value through profit or loss and measured at fair value with the change in fair value recognized in profit or loss.

Financial assets at amortised cost are subsequently measured at amortissed cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Cash and cash equivalents comprised bank balances with maturities of three months or less from the acquisition date that were subject to insignificant risk of changes in their fair value.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group/Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Group/Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group/Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group/Company analogizes to the guidance on derecognition of financial liabilities.

The Group/Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature)

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group/Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Group/Company recognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group/Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group/Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the key rate of National Bank of Georgia, if the loan contract entitles banks to do so and the Group/Company have an option to either accept the revised rate or redeem the loan at par without penalty. The Group/Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Group/Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group/Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Group/Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group/Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group/Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group/Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group/Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group/Company currently has a legally enforceable right to set off and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group/Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group/Company and all counterparties.

Policy applicable before 1 January 2018

The Group/Company classified its non-derivative financial assets as loans and receivables.

The Group/Company classified non-derivative financial liabilities into the other financial liabilities category.

(vi) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity securities, trade and other receivables, dividends receivable, loans receivable and cash and cash equivalents.

The Group/Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group/Company becomes a party to the contractual provisions of the instrument.

The Group/Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group/Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group/Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group/Company classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade receivables, loans receivable and dividend receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity investments.

(vii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group/Company becomes a party to the contractual provisions of the instrument.

The Group/Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group/Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(viii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(ix) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(j) Impairment

Policy applicable from 1 January 2018

Financial instruments

The Group/Company recognises loss allowances for ECLs on financial assets measured at amortised cost:

The Group/Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group/Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's/Company's historical experience and informed credit assessment and including forward-looking information.

The Group/Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group/Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group/Company in full, without recourse by the Group/Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group/Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group/Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group/Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group/Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group/Company on terms that the Group/Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off.

The gross carrying amount of a financial asset is written off when the Group/Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group/Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group/Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group/Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's/Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group/Company on terms that the Group/Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group/Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

The Group/Company considers evidence of impairment at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group/Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's/Company'snon-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGU.

The Group's/Company'scorporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group/Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Site restoration

In accordance with the Georgian Law on Natural Resources the owner of the exploration and extraction license is responsible for the site recultivation upon completion of use of natural resources or termination of the use of resources for other reasons and if there is no further use of the resources.

A corresponding asset is recognized in property, plant and equipment. Site restoration costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax risk-free rate. The unwinding of the discount is expensed as incurred and recognized in profit or loss as a finance cost. The estimated future costs of restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, timing of the restoration or in the discount rate applied are added to or deducted from the cost of the relevant asset.

33. New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group/Company has not early adopted them in preparing these consolidated and separate financial statements.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Group/Company is assessing the potential impact on its consolidated and separate financial statements resulting from the application of IFRS 16.

(a) Other standards and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Group's/Company's consolidated and separate financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*;
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*;
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards;
- *Amendments to References to Conceptual Framework in IFRS Standards*;
- *IFRS 17 Insurance Contracts;*
- *Definition of a Business (Amendments to IFRS 3);*
- *Definition of material (Amendments to IAS 1 and IAS 8);*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*

34. Subsequent events

In January 2019 the Group/Company fully repaid borrowings from Trafigura PTE LTD.

Parent Company Rich Metals Group B.V. was liquidated and after July 2019 99.6% owner of the Group/Company became Mining Investments LTD which is parent company of Rich Metals Group B.V. There were no changes in the Group/Company's ultimate controlling party.

In addition, the Coronavirus outbreak since early 2020 has brought additional uncertainties in the Group's/Company's operating environment and has impacted the Group's/Company's financial position subsequently due to significant global market turmoil triggered by the outbreak of the coronavirus as a result of which GEL further depreciated against USD by approximately 12% from the reporting date as of the date these financial statements were authorised for issue.

The Group/Company has been closely monitoring the impact of the developments on the Group's and Company's businesses and has put in place contingency measures. The sensitivity analysis provided in Note 25(e)(i) shows the effect of reasonably possible changes in currency exchange rates on the Group's/Company's financial assets and liabilities as at the reporting date. The management's current assessment is that the impact of the coronavirus outbreak and the resulting factors will not have significant impact on the Group's/Company's operating activities.

Management Report

Of JSC RMG Copper

For the reporting year ended with December 31, 2018

Activity Overview

JSC "RMG Copper" (former JSC "Madneuli", hereinafter the "Company") – started operations in 1975, while forming as a joint stock company in 1996; The Company is registered in Kazreti Settlement, Bolnisi Region. The Company holds the license for exploration, mining and processing of mineral resources at the Madneuli deposit in Bolnisi region until 2041.

The Company does not have significant subsidiaries as of the reporting dates.

Set out below is a list of subsidiaries of the RMG Copper JSC.

Subsidiary	Country of incorporation	2018 Ownership/voting	2017 Ownership/voting
Belaz Kavkaz Trans Service LLC	Georgia	50%	50%
Trans Petg Mzidi LLC	Georgia	50%	50%

As at 31 December 2018 and 2017 management has determined that the Group controls Belaz Kavkaz Trans Service LLC and Trans Petg Mzidi LLC by virtue of an agreement with other shareholders. Subsidiaries are not significant.

The Company's main operations include production and sale of gold-copper concentrate. The by-product of the Company's operations is the production and sale of the so-called cemented gold-copper concentrate.

The Company's technological process is the extraction of gold and copper from the rocks through the flotation technology process. Flotation is the process whereby, in finely ground rocks, using water and reagents (mainly by lime), the concentrate or fraction is separated, which contains the most gold and copper.

With the flotation technology only certain types of so-called Sulfide ores can be processed, this is why the Company extracts the respective ore from its own, so-called Madneuli quarry, as well as from "RMG Gold" Sakdrisi mine field.

In the period 2019-2025, 13.7 million tons of ore is planned to be extracted from the Madneuli quarry and 8.9 million tons of ore to be purchased from RMG Gold LLC during the same period. From 2019, in the factory owned by the company, it is also planned to process ore produced by "Auramine" LLC.

As for the Company's operating activities, in 2018 the sales increased from GEL 226 million to GEL 275.8 million. The increase in sales is mainly due to the higher gold content in the realized concentrate and increase in copper price compared to the previous year. The cost of goods sold also increased from GEL 107.1 million to GEL 159.2 million, due to the purchase of relatively expensive ore from Sakdrisi mine field. In 2018. Number of employees increased from 1,639 to 1,763 from 2017 to 2018. Employees of the Company, due to the specificity of the industry, possess special skills that are unique to Georgia.

Operating results also indicate a reduction in financial expenses from GEL 10 million to GEL 6.3 million, due to a significant reduction in credit liabilities.

The Company's activities together with a related company "RMG Gold", LLC, its contractors and subcontractors, create a significant positive economic impact in terms of employment and tax revenues in the municipalities of Bolnisi and Dmanisi.

The Company implements important projects in the fields of social responability, culture and sports.

The extraction and processing of ores is governed by licenses and permits. The Company holds the mining license # 1005456 in the Bolnisi Municipality for Madneuli Gold-Copper-Barite-Polymetallic Mine. The Company also has the appropriate permit for ore extraction and concentrate production.

Environmental protection

<u>General information</u>

In addition to the environmental legislation requirements and conditions defined by the environmental permits, the Company developed short-term and long-term action plans in 2018 to reduce and/or prevent adverse environmental impacts during the operation of JSC "RMG Copper".

Short-term and long-term action plans - the Company implements impact mitigation measures within the specified timeframe.

<u>Water</u>

Based on the Company's Surface Water Quality Monitoring and Analysis of Additional research results, causes and sources of River Water Pollution in the ore processing entity area were identified; the document was developed and short-term and long-term water protective action measures were planned for protecting the rivers from the pollution.

The Company has implemented a number of measures in 2018 to minimize the potential impacts on the water environment, including: quarry sour waters dam rehabilitation; construction of emergency receiving reservoirs in case of tailings pulp feed line accident; replacing sour waters and "pulp" pipelines; installation of a new pumping system for the new water collecting reservoir under the tailings dam; additional research works on waters leaked from dumps N3 and N4 in terms of their possible/further use.

Out of the 2018 water protective measures, the project to protect the Kazretula River from pollution is noteworthy. As a result of this project, the Kazretula River fell into a protective pipe along the entire perimeter of the production site, which completely eliminated river pollution. In addition, a three-stage setting tanks cascade was arranged to collect, sediment and neutralize the drainage water generated on the site.

In order to prevent contamination of the household water, the Company purchased and placed, the so-called "bio-toilets" in selected areas, where necessary.

Organized collection of waste streams generated in chemical laboratories is also carried out in special reservoirs.

The said waste, in accordance with accumulation, shall be transferred to the Contracting Company with appropriate authorization, for subsequent disposal.

To avoid the negative impact on the surface water objects adjacent the production site (rivers Kazretula, Mashavera and Poladauri), JSC "RMG Copper" provides the arrangement of drainage, canals and/or purification equipment/facilities for wastewater from tailings and gangue mine dumps caused by rainwater.

Accordingly, the analysis of the need for the purification facilities was carried out during the activity process and locations for the installation of purification facilities were identified.

Under the performed research and analysis the need for 3 units of purification plants on the territory of JSC "RMG Copper" was identified, among which 1 biological purifier, and arrangement of chemical purification facilities for the purification of other polluted waters, in addition, the bottom of the 4th dump and Kazretula Valley, after the setting tank cascades, the need for the arrangement of the purification facility will be further specified following the ongoing additional research.

At this stage, the purification facilities are being designed. The company will carry out the construction/operation of purification facilities within the timeframe set by the Ministry of Environmental protection and Agriculture of Georgia (2018-2021).

Ambient air

Control of harmful substances emitted into air on the territory of JSC "RMG Copper" is carried out in accordance with the air safety legislation and Company monitoring plan. The surveillance control sites are the industrial areas where organized (including stationary) and unorganized sources of harmful emissions into air are located and the settlement of Kazreti.

In order to minimize dust in hot and dry weather, the Company conducted an experiment and determined the watering periodicity and set a watering schedule. In 2018, the Company purchased 3 units of additional irrigation equipment for the unhindered irrigation of the roads.

JSC "RMG Copper", in agreement with the Ministry of Environmental protection and Agriculture of Georgia, is undertaking a project to restore/rehabilitate dust trapping equipment to maximize the localization of ambient air emissions during the operation of the enterprise and reduce dust concentration in the operating area.

In 2018, a ventilation network was arranged in the lime workshop where a venting ventilator is installed. Automatic cleaning filters are installed in the system. Automatic cleaning electronic system is arranged.

The project also plans to install an aspiration system in the crushing plant, the crushing and grinding plant and the accumulative bunkers.

Soil

Specification of damaged and eroded areas of soil was made as part of soil protection measures. The Company has studied the mechanical and water erosion of the slopes and has developed mitigation measures.

The Company plans to install drain water collector system to protect soil against water erosion. By 2018, the design of the drain water collector system has been completed and arrangement works are underway.

The Company considers recultivation as the main measure of soil protection. In order to increase the efficiency of recultivation, the Company arranged seed-plot farm where the trial species are being sown.

In the seed-plot, the plants will be taken care of, and during the appropriate seasons the land works will continue and additional species will be cultivated as needed.

Waste management

JSC RMG Copper manages waste in accordance with the Waste Management Plan agreed with the Ministry of Environmental Protection and Agriculture.

The Company has introduced a segregated waste collection system. The Company has accurate data on the types and quantities of waste associated with its operations for the period of 2018 on the territory of the company;

Open and closed areas of all temporary warehouses are arranged by the Company management in accordance with environmental and personnel safety requirements and are subject to strict control;

Waste management staff consistently perform targeted waste management of both types (collection, pre-processing, temporary placement before final delivery);

Person responsible for the waste management of the Company provides constant supervision and monitoring of all mandatory processes under the Waste Management Plan.

JSC RMG Copper has future goals and plans for the development of a sustainable, integrated management system (hierarchical model) in the field of management of hazardous and non-hazardous waste generated during the operation process.

Therefore, within the scope of these environmental measures, the Company has considered alternatives to the secondary recycling capacity of the waste generated during the operation, which in certain cases may have significant environmental, technological or economic advantages.

Biodiversity

Ongoing works of the Company's production process, to minimize the potential impact, the Company regularly monitors the points provided for by the monitoring plan.

Since the Company's activities have the greatest impact on the water surface object, in terms of monitoring, the Company provides monitoring of the Mashavera River's ichtyo fauna, hydro (macro) fauna and water-dependent animals.

Also, in 2018, the Company conducted the biodiversity and Mashavera River ichtyo fauna research. The Company continues to monitor the research and the biodiversity monitoring report will be submitted annually to the Ministry of Environmental protection and Agriculture of Georgia.

Given that the production area is bordered by the Forest Fund lands, these lands are used only in case of necessity, only if granted the state forest fund special purpose right of use, in accordance with the current legislation.

Management of hazardous chemicals

Management of hazardous chemicals used in production processes is carried out in accordance with the Company's approved Hazardous Chemicals Management Plan. The plan provides information on the properties and compatibility of hazardous chemicals used in manufacturing processes; also, procurement, labeling, transportation, warehousing, storage and handling procedures; process of supply and storage of hazardous chemicals in the warehouse and rules for arranging the hazardous chemicals storage warehouse. Strangers are not allowed to enter the area to safeguard the facility for the storage of hazardous chemicals. The warehouse area is fenced and equipped with warning signs. Warehouse buildings are designed to prevent leakage of spilled substances, the building has waterproof concrete floor and roof, while the floor has appropriate drainage and special drainage pipes. Stocktaking control is performed on the basis of the supplier ovearheads comparison and by serial numbers of containers.

Other chemicals used in the production process are stored in a closed and semi-open warehouse for chemicals.

Substances are stored in accordance with the requirements of the by-laws of Georgia and with the consideration of the Chemical Safety Passport requirements. Personnel working with chemicals are provided with personal protective equipment (PPE).

Main risks and uncertainties

Gold and Copper price volatility

The financial results of the Cmpany are highly dependent on gold and copper prices, which in turn depend on other important factors and are outside the control of the Company; Gold is traded on the London Bullion Market, the Tokyo Commodity Exchange, the New York Commodity Exchange (COMEX), and the Zurich Gold Pool. The Company's gold is sold on the basis of the gold prices announced on the London Bullion Market. World gold prices depend significantly on many factors, including (1) world's gold supply-demand ratio (2) world economic growth rates, also the production of jewelry which is correlated with the demand for gold (3) economic growth and political situation in India and other Asian countries, that have become the largest consumers of gold, also other developing countries (4) speculative investments in gold and gold futures (5) exchange rate volatility and strengthening of US dollar. Gold prices fluctuate– in 2018 the daily prices ranged between USD 1,177 and USD 1,360 per ounce; Copper prices are determined on the London Metal Exchange (LME). The main suppliers of copper on the world market are Chile and Peru, while main consumers are USA and China. Strong economic growth in USA and China leads to rise in copper prices, as well as delay or price increase of supply in Chile and Peru. The price dynamics of copper containers are also important, for example, the rise in copper prices in the early 2000s has led to the replacement of copper by aluminum in electric cables. Copper prices fluctuate – in 2018 the daily rates ranged between USD 5,811 and USD 7,268 per ton. Maintaining low gold and copper prices over the period has an adverse effect on the Company's profit and cash flows. From 2018 the Company started using hedging to cover the above risk until September, 2019.

Mining business activity risks

The mining business is characterized by many operational risks and factors that are beyond the control of the Company and affect the Company's operations, operating results and cash flows. These operational risks and factors include, but are not limited to:

(i) Unplanned state of land and water

(ii) Geological problems, including earthquakes and other natural disasters

(iii) Metallurgical and processing problems

(iv) Occurrence of unusual weather or working conditions and other forms of force majeure events

(v) Lower than expected contents and selection coefficients

(vi) Accidents

(vii) Late acceptance or refusal of government permits

(viii) Results of litigation, including appeal of the appeal decision

(ix) Uncertainties in mining operations

(x) Delay in transportation

(xi) Labor disputes

(xii) Inability to obtain the desired insurance reimbursement

(xiii) Inability to obtain the necessary materials and equipment

(xiv) Unsuccessful operation of equipment or processes in accordance with specifications and expectations

(xv) Unforeseen difficulties with acquired operations and failure to achieve expected returns

(xvi) Sources of financing and financial market situation

It is not possible to fully cover these risks, however, employing high-level geologists, lawyers and other specialists in the company reduces the likelihood of these risks occurring and the negative consequences.

Other risks

Other risks include interest rate growth, currency depreciation and other risks; Given that the company sales mainly occur in foreign currency the impact of this type of risks is insignificant.

December 30, 2020

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